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SUBJECT: POWER CONSUMPTION DOWN IN SHANGHAI DUE TO ECONOMIC DOWNTURN

REF: SHANGHAI 284

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11. (SBU) Summary: Energy contacts in Shanghai say power consumption in Shanghai has slowed significantly the past few months due to the economic downturn. In contrast to the situation earlier this year, there is now an "oversupply" of coal in Shanghai, said one analyst, who also thinks power prices will start coming down following a 30 percent drop in coal prices. Shanghai is looking to expand its electricity grid and build new power generators but is faced with local opposition, according to a government official. LNG will occupy a larger ratio of Shanghai's energy mix, as Shanghai moves to shift from coal to cleaner energy. But one interlocutor speculates the economic downturn may cause some of these clean energy projects to fall by the wayside, as the government focuses on boosting the economy. End summary.

Sharp Decline in Power Demand

12. (SBU) Ying Zhiwei, Vice Manager of the Planning and Development Department at the Shanghai Municipal Electric Power Company (SMEPC), said power consumption in Shanghai was up 8 percent year-on-year (YOY) for the January-September period this year, similar to growth every year. However, she said consumption only rose 5 percent YOY during this year's summer peak season and has slowed considerably since then. She attributed this slowdown to the economic downturn in Shanghai.

13. (SBU) Manop Sangiambut, Deputy Head of China Research Construction and Machinery Sectors, CLSA (an investment and research group), presented higher growth figures but also sees a significant slowdown in power consumption. He estimates Shanghai experienced 20 percent YOY growth in power consumption in Q3 2008 but that growth slowed to 8 percent in October and will be even lower when figures are released for November. Power consumption normally grows 14-15 percent across China every year but has actually declined by 5 percent and 11 percent YOY in October and November respectively, he said. According to Sangiambut, the drop in demand has been especially sharp in Guangdong Province (manufacturing sector) as well as in the energy-intensive steel, cement, and petrochemical industries. The "effects of the economic downturn are clearly reflected in

the fall in power consumption," he added. (Comment: That energy-intensive industries are particularly showing decreases in energy demand raises the probability that changes in energy demand differ in degree from changes in economic output. End comment.)

"Oversupply" of Coal

¶4. (SBU) According to Zheng Long, Director of the Department of Electric Power at the Shanghai Economic Commission (SEC) and Ying of SMEPC, 70 percent of Shanghai's electricity is generated from coal. In sharp contrast to the situation earlier this summer when there were concerns about possible shortages of coal (see reftel), Sangiambut of CLSA said there is now an "oversupply" of coal, much of which is now "just sitting at Shanghai ports." He said this is due to falling demand, and estimates that coal prices have come down 30 percent from their peak a few months ago. He also has heard rumors that the Chinese Government plans to bring down power prices since coal prices have fallen. He observed that power prices have already started declining in other parts of the country, such as Yunnan Province and Inner Mongolia.

Expanding Power Capacity

¶5. (SBU) Zheng of the SEC said 70 percent of Shanghai's electricity is generated at power stations located within Shanghai Municipality and the remaining 30 percent comes via high-voltage transmission lines from other parts of China, including coal-powered plants in Anhui, the Three Gorges Dam, and from the Qinshan nuclear power plant in Zhejiang. He said the current East China grid supplying power to Shanghai (as well as the power grid within Shanghai) is not sufficient to meet

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long-term demand. He also noted plans to build five new "large-scale" generators in Shanghai by 2010 that would expand capacity from the current 16 million kWh to 35-40 million kWh. (Note: Our discussion with Zheng occurred before figures showing the sharp decline in demand in October and November came out. The discussion also took place before the Chinese Government announced its stimulus package, which, according to Sangiambut, should stimulate infrastructure development including expanding power grids from Central and Western China to the coast. End note.)

¶6. (SBU) Zheng said SMEPC is planning to expand the Shanghai grid and construct generators but that "implementation will be difficult" due to opposition from local residents who are concerned about the impact of these projects on human health and land value. In a separate discussion, Ying of SMEPC said that SMEPC is working to expand its power grids but did not comment on local opposition.

Will Shanghai Be Able to Diversify?

¶7. (SBU) Zheng of the SEC lamented Shanghai's dependence on coal power and said the local government is looking to increase the ratio of Liquefied Natural Gas (LNG) in Shanghai's energy mix. He described several projects already underway. The first is a pipeline from Turkmenistan through Xinjiang to Shanghai. Zheng said the first stage of this project has already been completed, and they are now working on the second stage. The second project is a pipeline from Sichuan Province which, according to Zheng, should have been completed in 2008 but, due to delays, will not be completed until the second half of 2009. Another project involves importing LNG from Malaysia, expected to be running by the middle of 2009. After completion of these projects, Shanghai should have an "abundant supply of LNG," said Zheng. He believes Shanghai (and Beijing) is one of the few cities in China that can afford and is willing to pay the higher prices for LNG. The local government is focused on shifting from coal to cleaner energy, he said.

¶8. (SBU) But with the economic downturn, Sangiambut of CLSA thinks clean energy projects may fall by the wayside, with more

focus placed on measures to boost the economy. Although LNG imports may continue to rise, he said, it will be "a long time" before solar, wind, and other renewable energy supplies start occupying a significant portion of the energy mix. Zheng also acknowledged that Shanghai can only produce very little solar and wind energy by itself and that the city will continue to rely heavily on coal for the foreseeable future. Because coal prices are coming down and there is no longer a shortage, there will be even less incentive to switch away from coal, said Sangiambut.

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